



# The Real Estate ANALYST

OCTOBER 25  
1939

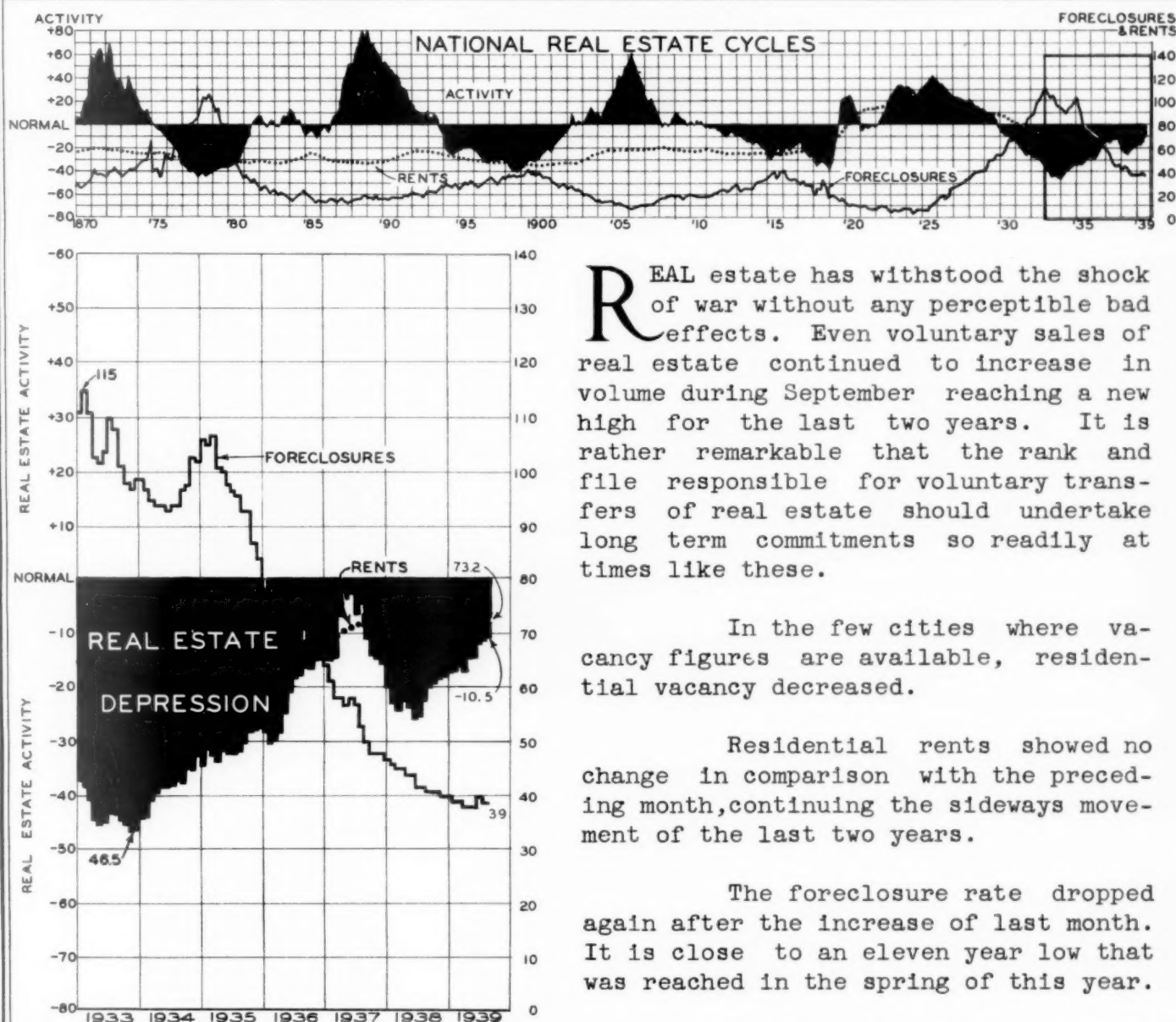
Roy Wenzlick  
Editor

A concise easily digested periodic analysis based upon scientific research in real estate fundamentals and trends...Constantly measuring and reporting the basic economic factors responsible for changes in trends and values....Current Studies.... Surveys....Forecasts

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VOLUME VIII

REAL ESTATE ECONOMISTS, APPRAISERS AND COUNSELORS



## EXPLANATION OF THE CHARTS

The charts above show booms and depressions in real estate from 1870 to the present. The large black areas above the line represent the real estate booms and the black areas below the line represent the real estate depressions.

The level of residential rents, indicated by the dotted red line, is charted, not as a percentage above or below a normal line, but as an index (1926=100) from the bottom of the chart and is read on the right hand scale, as is the index of the number of foreclosures per month per 100,000 families, shown by the solid red line. The lower chart is the last six years of the upper chart enlarged to show monthly fluctuations.

**R**EAL estate has withstood the shock of war without any perceptible bad effects. Even voluntary sales of real estate continued to increase in volume during September reaching a new high for the last two years. It is rather remarkable that the rank and file responsible for voluntary transfers of real estate should undertake long term commitments so readily at times like these.

In the few cities where vacancy figures are available, residential vacancy decreased.

Residential rents showed no change in comparison with the preceding month, continuing the sideways movement of the last two years.

The foreclosure rate dropped again after the increase of last month. It is close to an eleven year low that was reached in the spring of this year.

The volume of new residential building increased slightly in the country at large with sizable gains in some sections.

Construction costs increased slightly, the wholesale price of building materials advancing about 3%.

## BUSINESS IS IMPROVING RAPIDLY

**D**URING the past two years the condition of general business has been a retardant to real estate recovery. Prior to that the condition of real estate was probably a retardant to general business, but the fundamental position of real estate has improved to the point where any major upswing in general business will be reflected within a very short time in abnormally low residential vacancies, lower commercial vacancies, higher rents, higher sales prices, a more active market, and a larger volume of building. Since this is true, it becomes quite important to study the general business situation to see how rapidly changes are taking place.

In the center spread of this report we have charted for the last three years 24 of the most significant barometers of business conditions. We are describing each of these barometers below with comments on recent behaviours.

We are under the impression that general business, if the war continues, will proceed for the balance of the year on about the present level; that after a temporary recession next year, the year should average better than 1939. As events develop in Europe, it will, of course, be necessary to revise from time to time this opinion of the future.

INDUSTRIAL PRODUCTION - The Federal Reserve index serves as a measure of changes in the physical volume of the country's industrial output. The August figure was 102, September 110, and our estimate for October is about 120.

IRON AND STEEL OUTPUT - A Federal Reserve index, one of the industries included in their index of industrial production. We are estimating October above the peak in 1937.

MACHINE TOOL ORDERS - Prepared by the National Machine Tool Builders Association, representing dollar volume of new orders, domestic and foreign, for machine tools. No corrections have been made for seasonal fluctuations. The more recent figures are not yet available, although we are told by men in the industry that sufficient advance orders have been received to take care of the greater part of 1940.

FREIGHT CAR LOADINGS - This index has been corrected for seasonal variation. September showed a 10% increase over August.

WAGES - Compiled from a number of sources and computed by the Federal Reserve Bank of New York. In most cases the data are average hourly earnings. The index is corrected for seasonal fluctuation. August and September are not yet available.

FACTORY EMPLOYMENT - A Federal Reserve index based on data accumulated by the Bureau of Labor Statistics in 90 individual factory employment series. This index is adjusted for seasonal variation. The September figures are not yet available.

BUILDING MATERIAL MANUFACTURING EMPLOYMENT - Compiled by the National Resources Planning Board, covering employment in the production of six major construction materials. The index as charted is adjusted for seasonal fluctuation. September is not yet available.

PRODUCTION OF ELECTRICITY - Compiled by the Federal Power Commission and representing totals for all plants producing 10,000 kilowatt hours per month and generating electricity for public use. Data is charted as million of kilowatt hours per month. The rapid increases indicate consumption of power by industry.

DEPARTMENT STORE SALES - This index is based on daily average dollar sales of more than 400 department stores, and is adjusted for seasonal variation. September showed an increase of about 4%.

SALES OF FARM PRODUCTS - Compiled by the Bureau of Agricultural Economics covering cash income from farm marketing of 78 crops and 13 livestock items and government payments. Original data were corrected by The Real Estate Analyst for seasonal fluctuation and are charted as millions of dollars income per month. No September figure is available.

LIFE INSURANCE SALES - The Life Insurance Sales Research Bureau compiles sales of new, paid-for, ordinary life insurance in 54 companies accounting for approximately 85% of such business. September is not yet available.

AUTO SALES - The Automobile Manufacturers' Association compiles retail sales of passenger cars in the United States. Figures are charted as thousands of units sold.

CHECK TRANSACTIONS - Prepared by The Real Estate Analyst from data compiled by the Federal Reserve, covering debits to individual accounts by banks in cities having a population of 100,000 or more. The index is charted as percentage deviation from normal. September jumped by 9.3%.

NEW CORPORATE FINANCING - Compiled by The Commercial and Financial Chronicle, including all new capital flotations, domestic and foreign, publicly listed for sale, except bank loans and United States Treasury issues. Figures are charted as thousands of dollars floated per month.

COMMERCIAL FAILURES - Computed by Dun and Bradstreet, excluding real estate and financial companies. The index is expressed as the annual number of failures in each 10,000 firms in business.

GOVERNMENT DEFICIT OR SURPLUS - Released by the United States Treasury Department covering net surplus or deficit each month.

STOCK PRICES - Compiled by Dow-Jones and covering thirty leading industrial stocks. Charted on the base 1938=100.

COST OF LIVING - Computed by the National Industrial Conference Board.

WHOLESALE PRICES - Computed by the Bureau of Labor Statistics from prices  
(continued on page 240)



## THE COST OF BUILDING IS INCREASING

On April 21, 1939, we published a Construction Bulletin in which we charted in detail the variations in construction cost of a six room two story brick residence built in Saint Louis from 1913 to that date.

We have received a number of requests in the last two weeks for the recent cost experience on this house. We are charting it below by months for 1939.

As explained in our April report, every item of expense entering into this building is actually checked from bills for similar items actually delivered on similar jobs. Contractors and material dealers have cooperated in an effort to make these figures as accurate as it is humanly possible to make them. Everything has been done to keep this cost study practical rather than a compilation of indexes of theoretical costs.

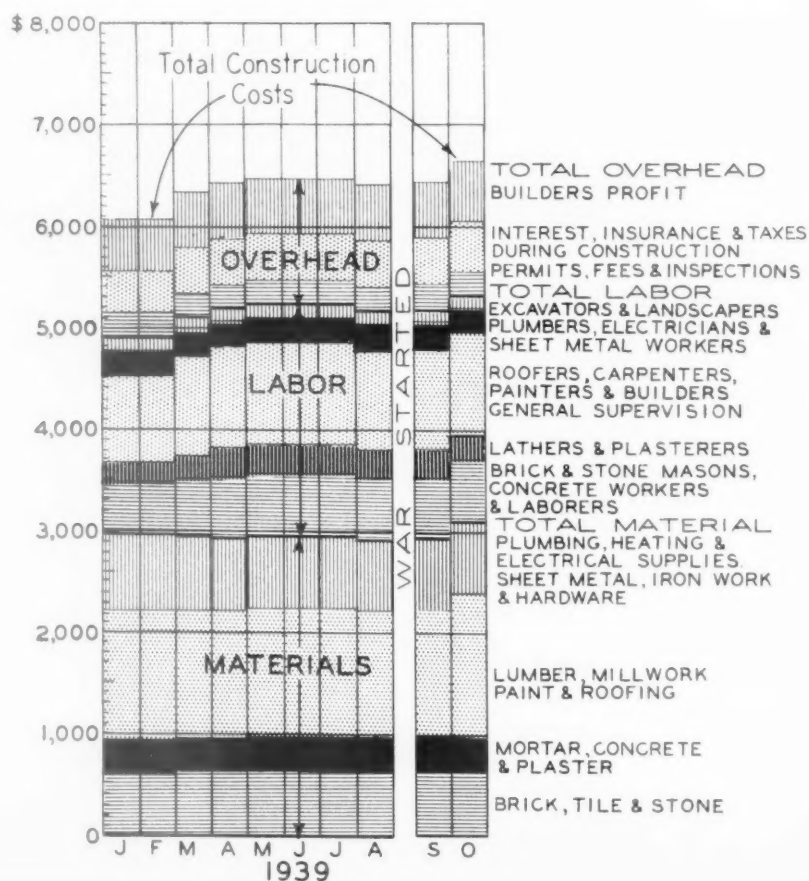
It is believed that construction costs in Saint Louis are fairly typical of construction costs in medium-sized metropolitan areas throughout the United States, not necessarily in their level but in their reaction.

The war so far has brought increases primarily in lumber and plumbing fixtures. The major increases in our opinion are still six months or more in the future.



COST TO BUILD

1913	\$4241
1920	8006
1925	8026
1932	5053
1933	5148
1934	5694
1935	5961
1936	6222
1937	6831
1938	6154
1939	
January	6062
August	6398
October	6627



## THE EFFECT OF WAR ON PRICES

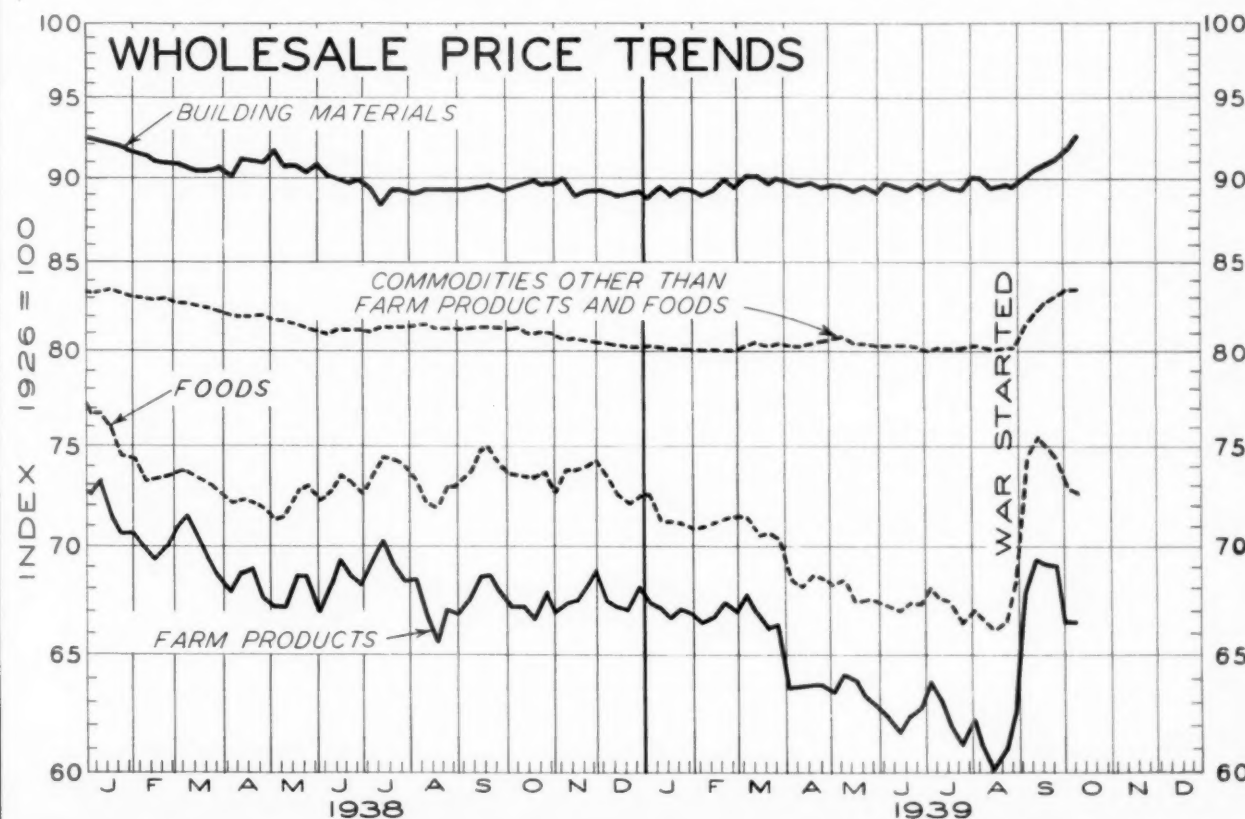
The chart at the bottom of this page shows the fluctuations by weeks of four groups of commodities during 1938 and 1939.

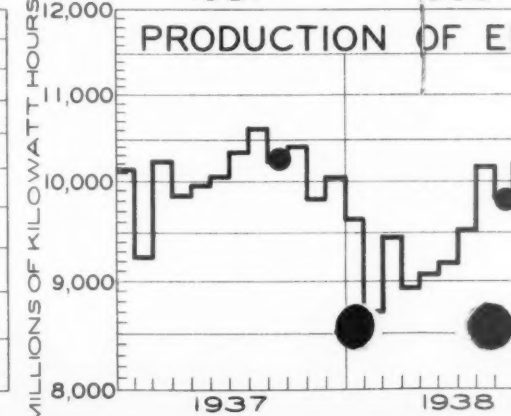
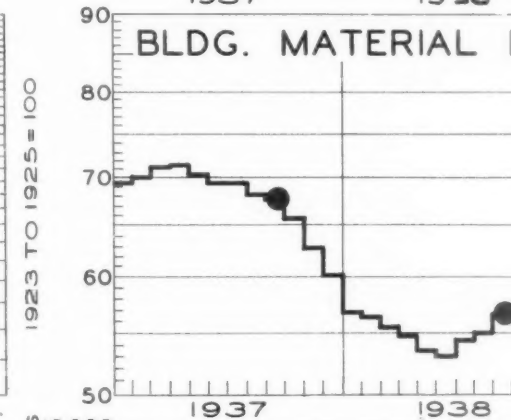
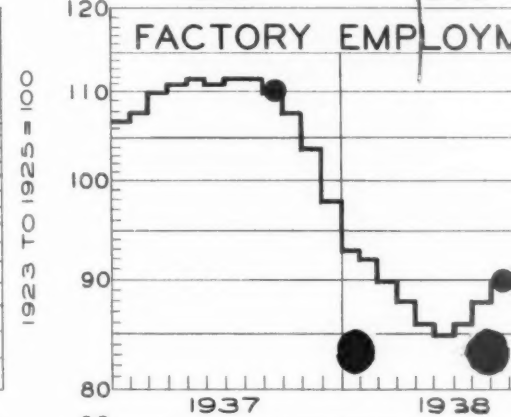
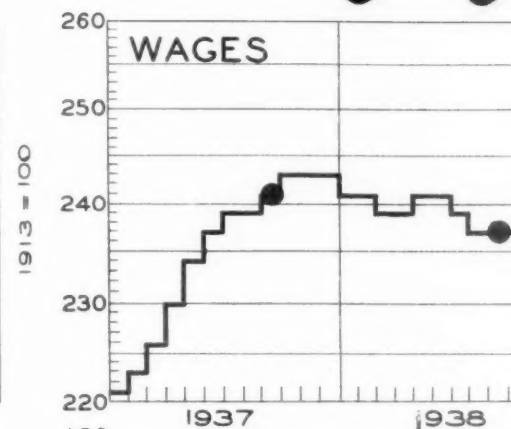
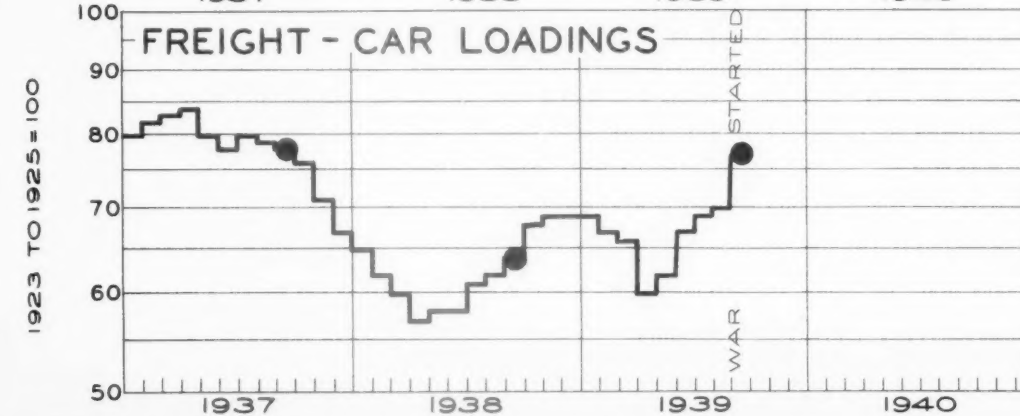
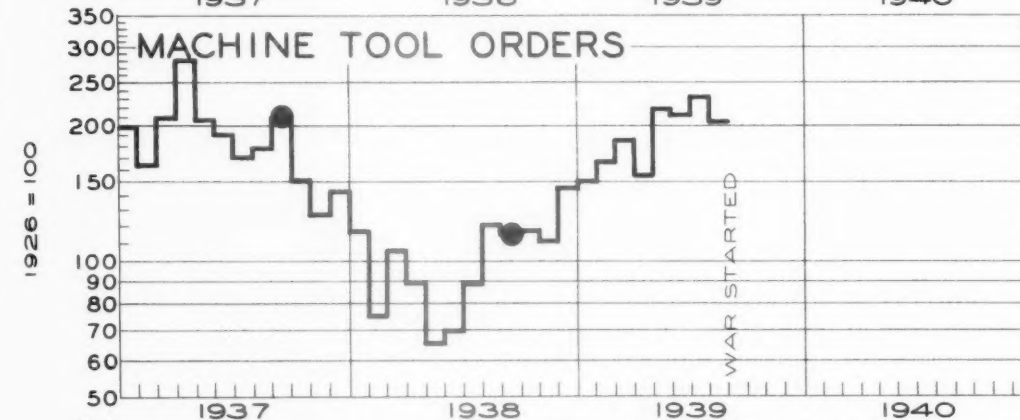
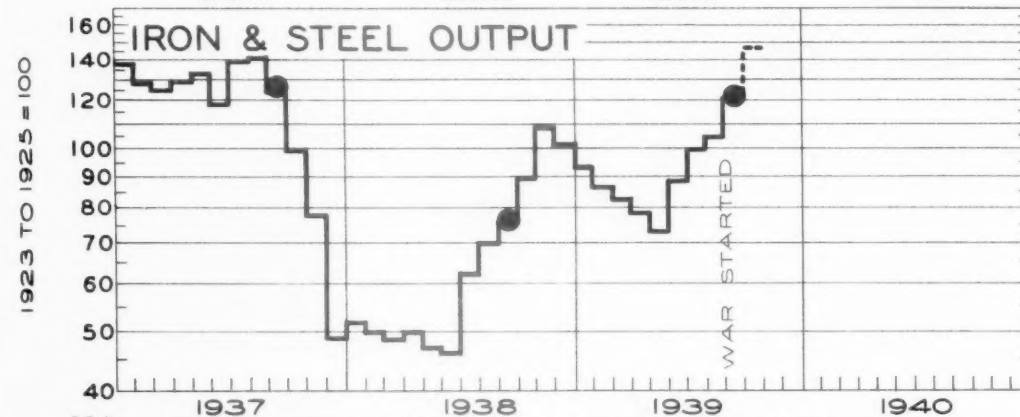
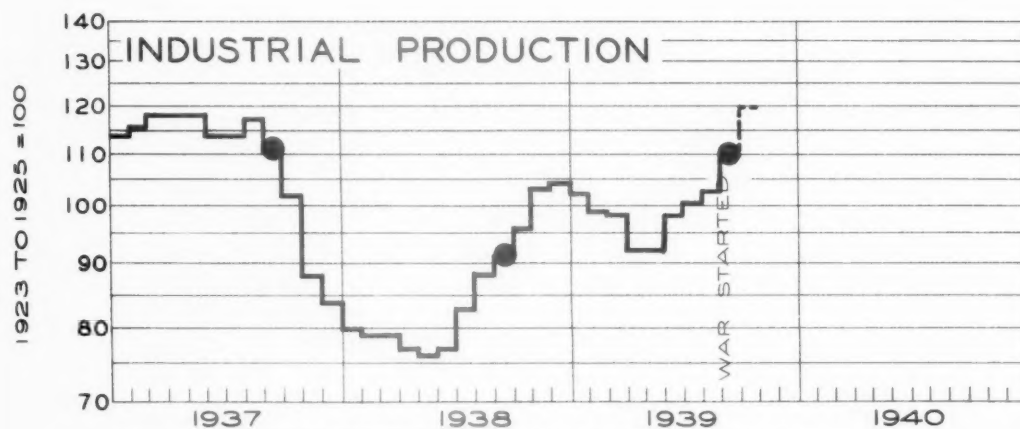
The solid red line shows the fluctuations in the prices of farm products. These prices jumped by the greatest percentage at the beginning of the war with, we think, the least reason. Our surpluses of farm products are larger than they were in 1914, and then these prices did not rise until shortages developed a year or so later. They are 9.1% above the level of the latter part of August. The only justification for the rapid rise in farm prices has been their very low level during the past few months. Even with the rise they are still only 67% of their 1926 level.

The black dotted line shows the fluctuations in the prices of food. This line has followed a pattern very similar to the farm products line, except that the rise has not been so great. It, too, has dropped from its high of a few weeks ago, and is now 9% above the pre-war level.

The dotted red line shows the price of all commodities other than farm products and food. Here the rise has been 4.1%, and so far there has been no marked tendency for prices to ease from this level.

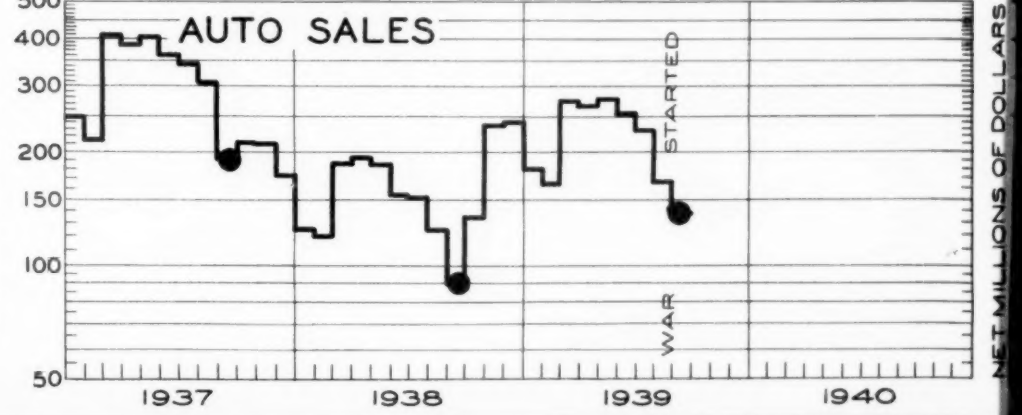
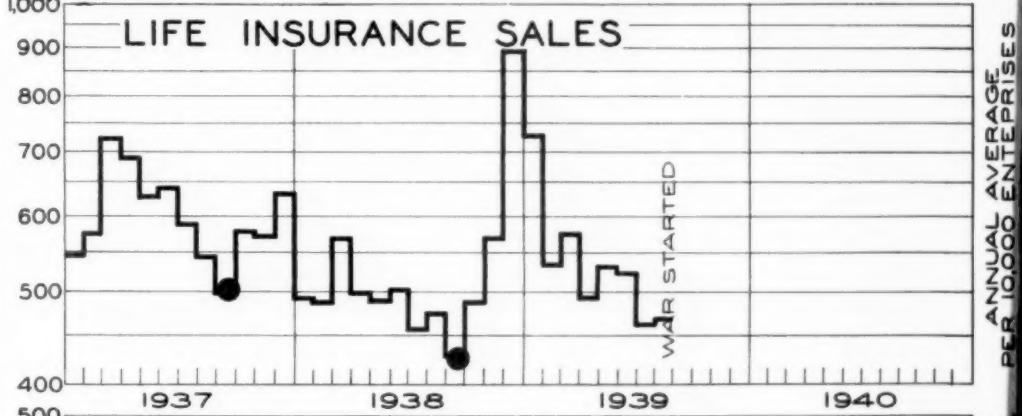
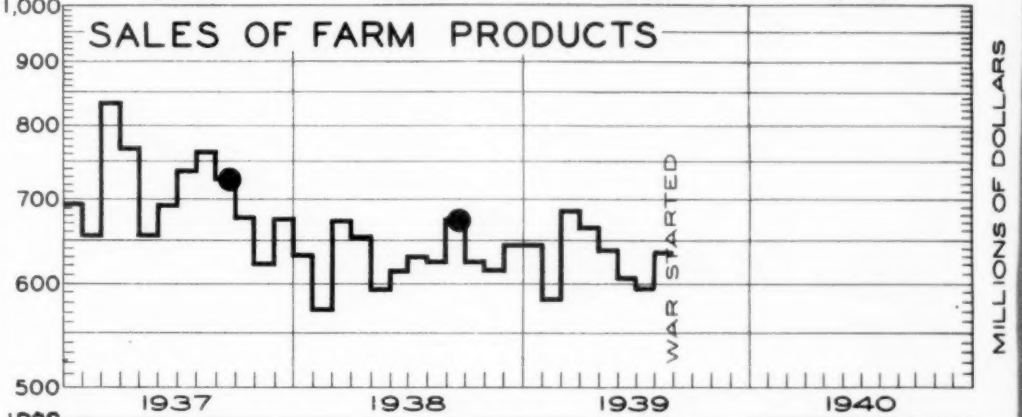
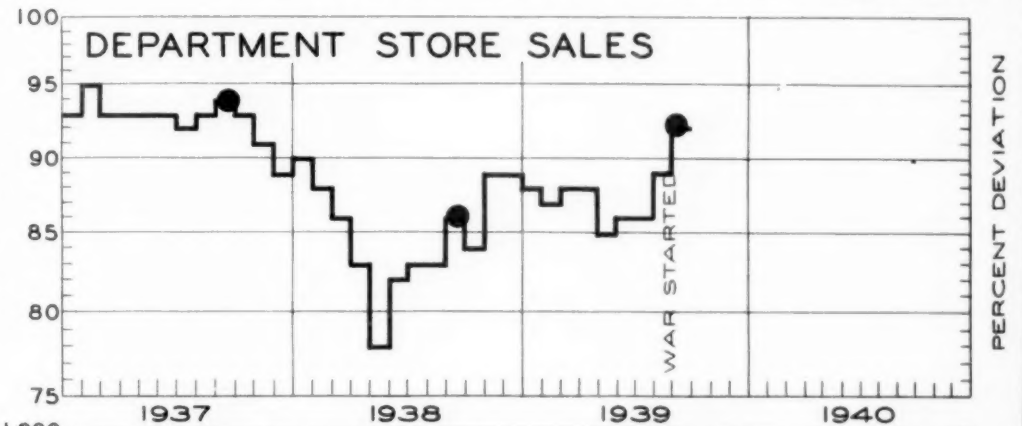
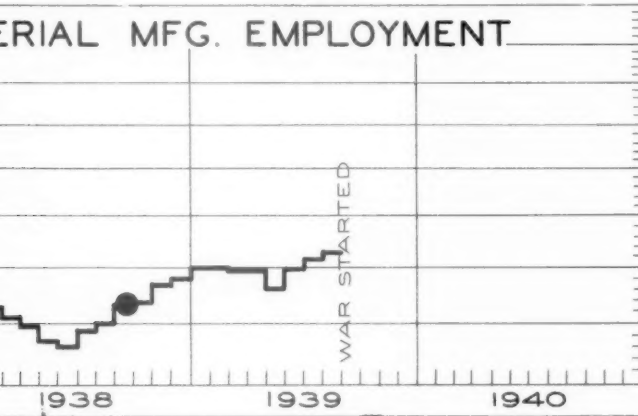
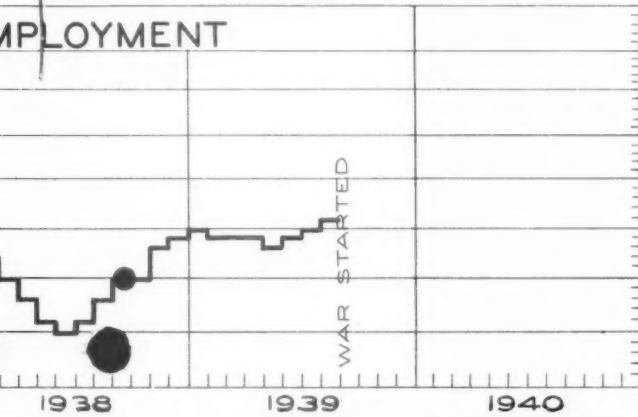
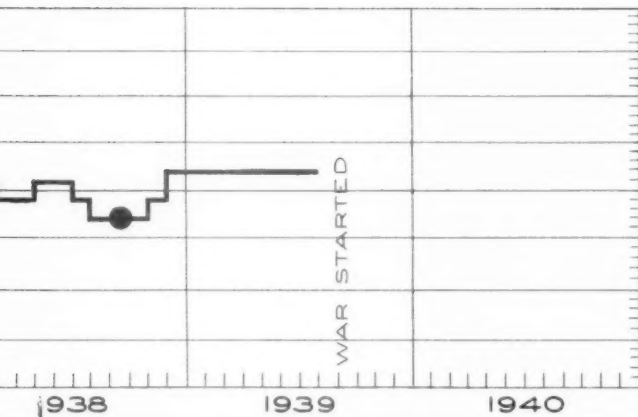
The solid black line showing the average price of all building materials has advanced by a smaller percentage than have any of the other lines in this study. Building materials are now averaging 3.1% higher in price than they were when the war started. The trend is still upward, although we believe it will level off shortly for a period of some months.





# PRINCIPAL BAROMETERS OF

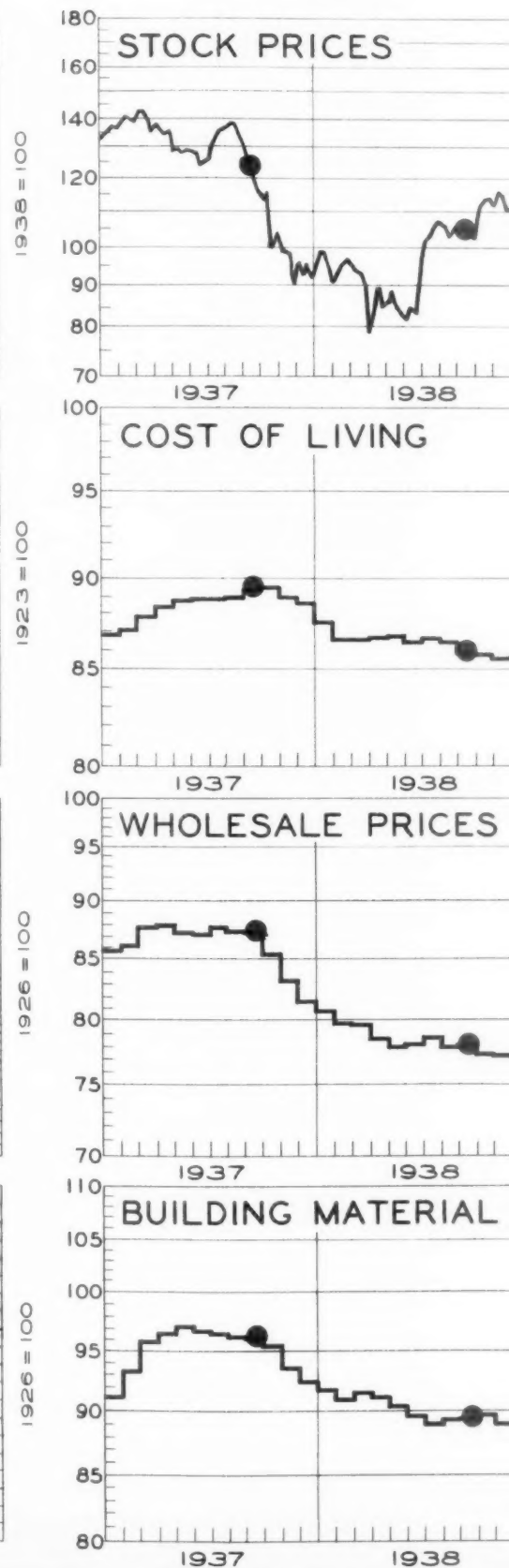
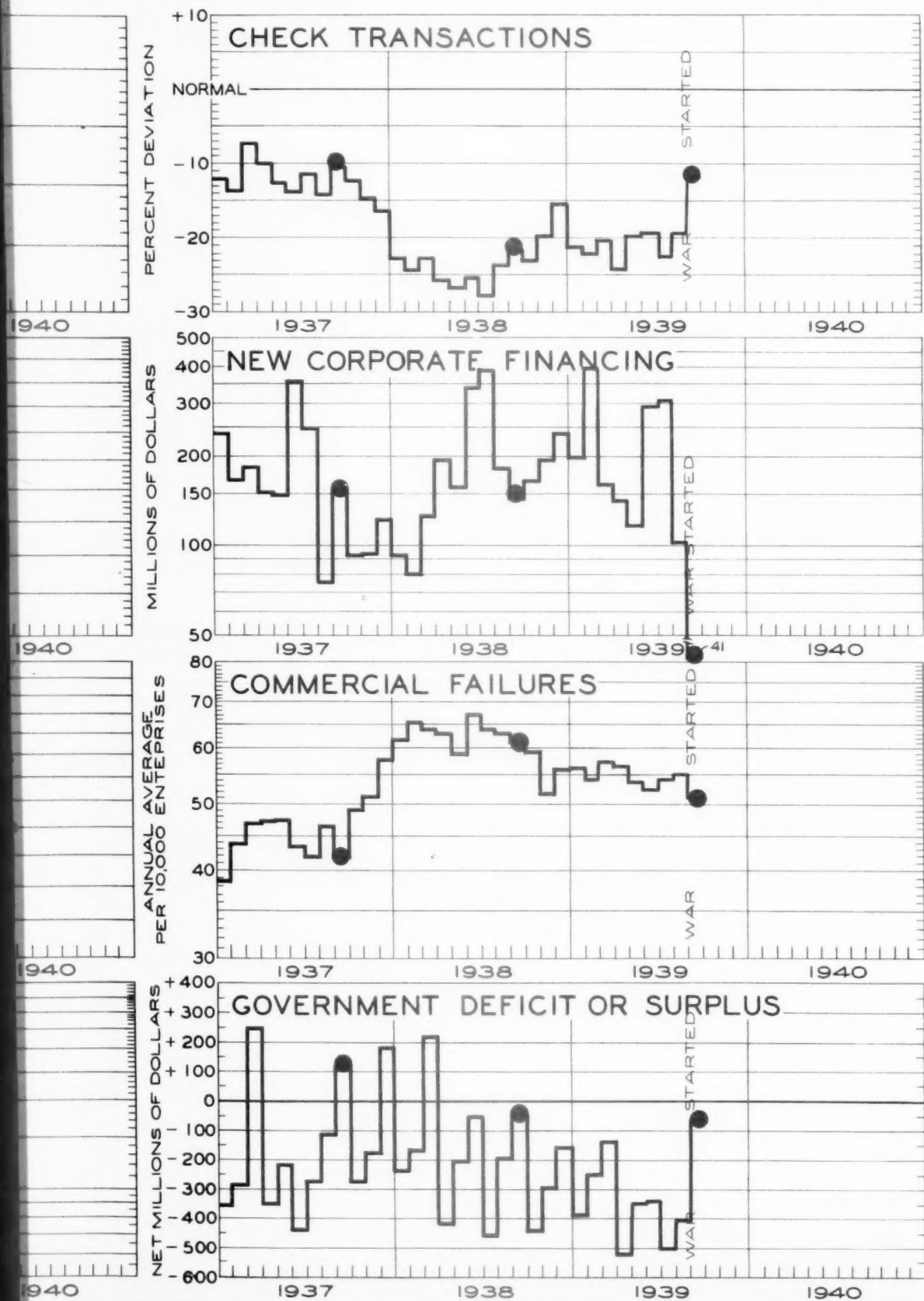
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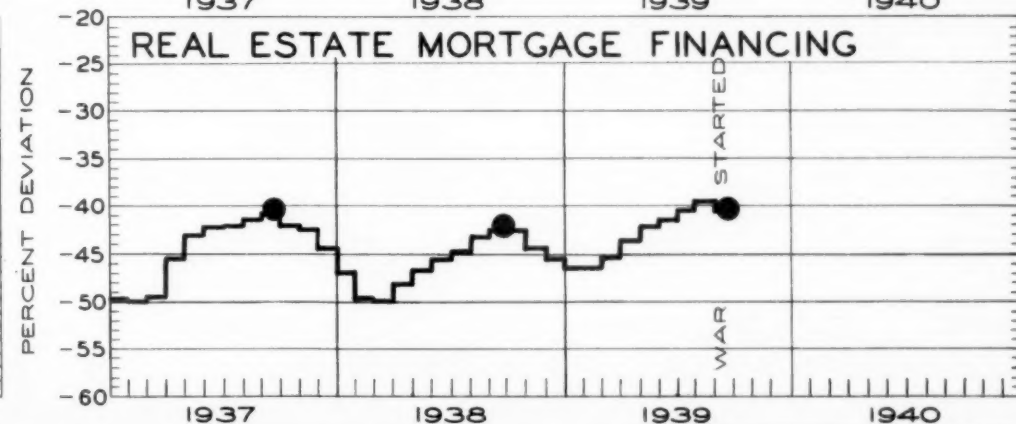
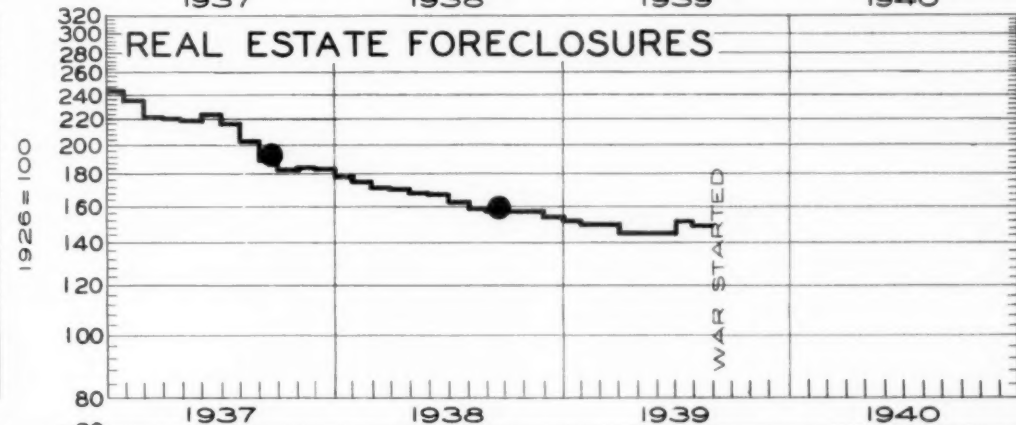
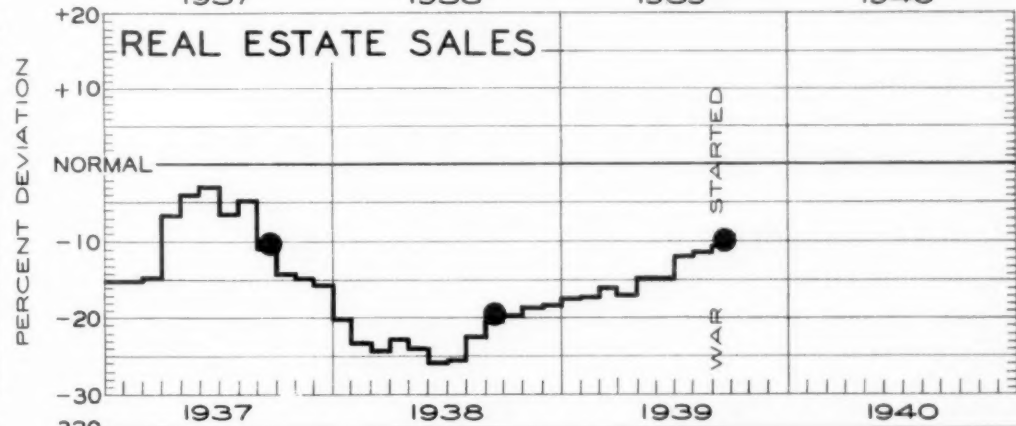
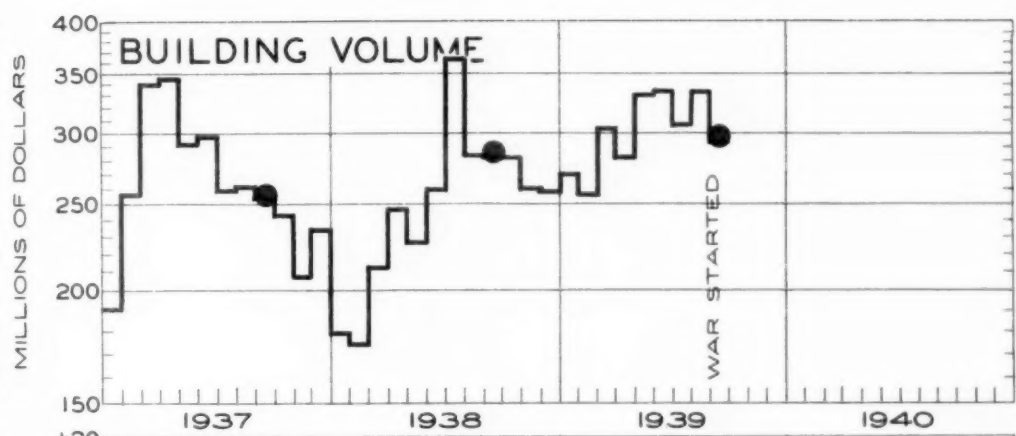
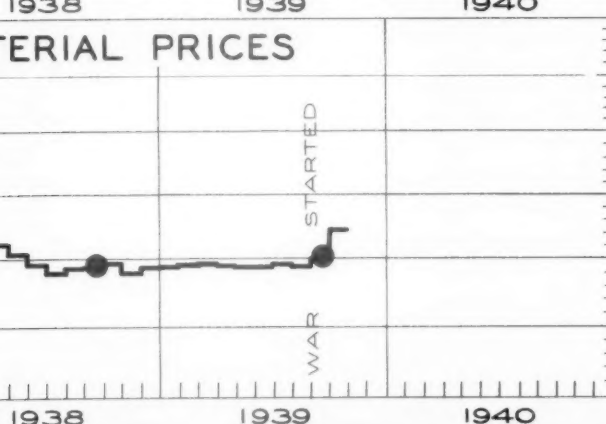
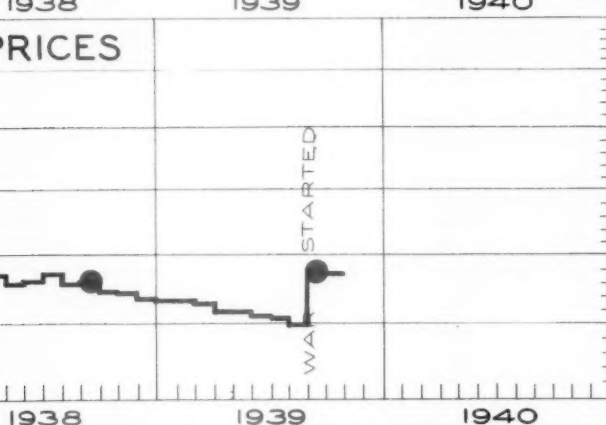
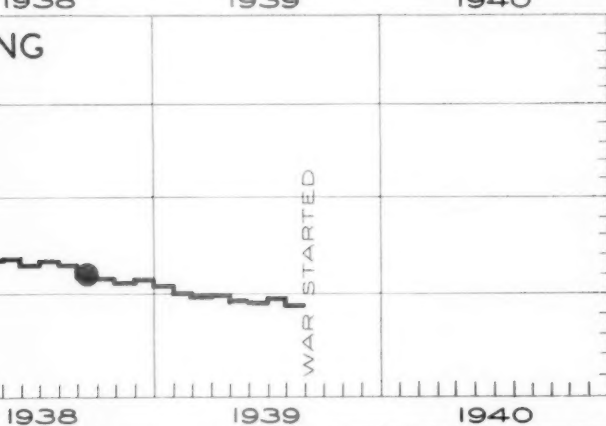
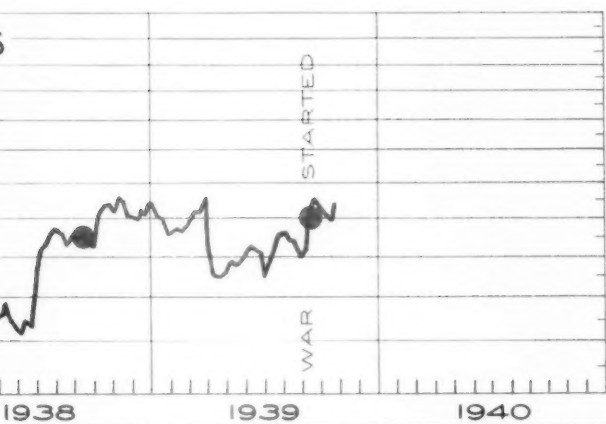


# TERS OF AMERICAN BUSINESS

ESTATE ANALYSTS, INC. ~ SAINT LOUIS







# RANKING OF THE STATES IN THE DEGREE OF GENERAL BUSINESS RECOVERY IN THE DEGREE OF REAL ESTATE RECOVERY



**REAL ESTATE RECOVERY IN PRINCIPAL CITIES**

- HIGHEST FIFTH
- SECOND HIGHEST FIFTH
- ⊗ MIDDLE FIFTH
- ⊖ SECOND LOWEST FIFTH
- LOWEST FIFTH

## REAL ESTATE & BUSINESS RECOVERY

THE map opposite shows general business recovery by states and real estate recovery by cities. The general business recovery status is shown by the red shading; the real estate recovery by the black city symbols.

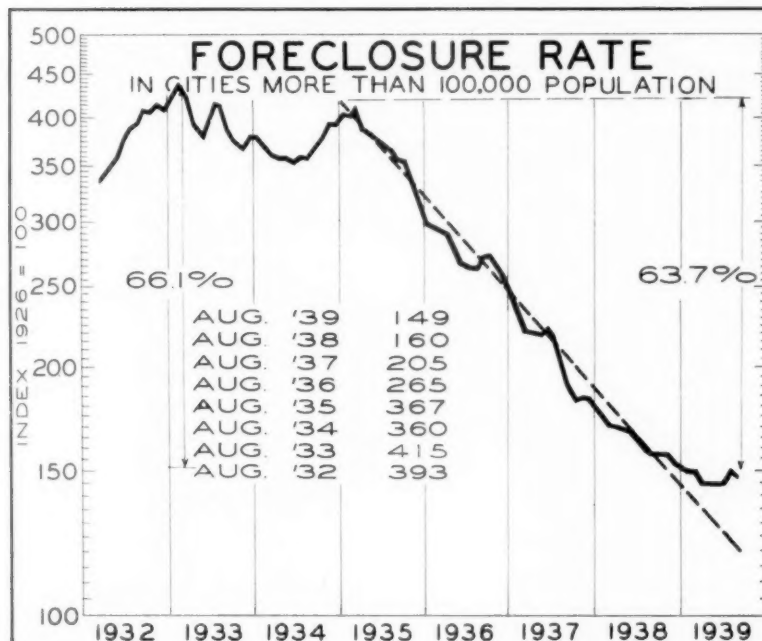
All states were divided into five groups on the basis of recent dollar payroll levels in relation to those levels during the past eight years. If dollar volume of payrolls during the past few months were high in relation to the levels of the past, the state was assumed to be in a prosperous condition. If, on the other hand, the level of payrolls was low in relation to the general averages of the past, it was assumed that the business men in that state would consider business very unsatisfactory.

The cities are grouped on the basis of the relative degree of real estate recovery. The ranking of each city is based primarily on the relative amount of building being done in each community. If we are right in our contention that new building is always the result of the relationship of rents and values to current construction costs, then new building will not proceed in any great quantity in any community until rents and values in that community have risen to a point where they are apparently high enough to pay a return on the current replacement cost. If a large residential vacancy yet exists in a certain community, clearly rents there cannot have risen to this point. If taxes are unusually high, rents must rise to the point where they will apparently show a net return above the high tax requirement. If a city is losing population, or not gaining population as rapidly as most other cities, it will take it longer to absorb residential surplus, meaning that rents will rise slower and that it will take longer for it to get to the point where new building can be done profitably in volume. If, on the other hand, the city is increasing rapidly in population, vacancy will be absorbed quite rapidly, rents and values will be at the point where there is an incentive to build, and a large amount of building will take place. The fact that new building is declining or advancing does not affect our index, as all cities are shown only on a relative basis. What we are trying to show in this particular study is not the degree of recovery but the relative standing of the various communities.

Government building has been excluded in arriving at our ranking of these cities as government building does not indicate whether or not rents have risen to a profitable level. All cities are ranked into either the highest fifth, the second highest fifth, the middle fifth, the second lowest fifth, and the lowest fifth. We consider this a more satisfactory arrangement than calling the first group high, the second above average, the third average, the next below average, and the last group low.

This chart as it has appeared in our reports in the past has been checked against results of national sales organizations with rather consistent results. Those cities which show up well on our map are generally those in which the greatest relative volume of business can be done.





THE chart to the left shows the monthly fluctuations in the foreclosure rate in cities having more than 100,000 population. This chart is corrected for seasonal fluctuations, and is based on the compilations made by the HOLC. The dashed line in red shows the trend at which foreclosures were dropping from 1934 to the middle of 1938. Since then, however, the trend has apparently flattened out.

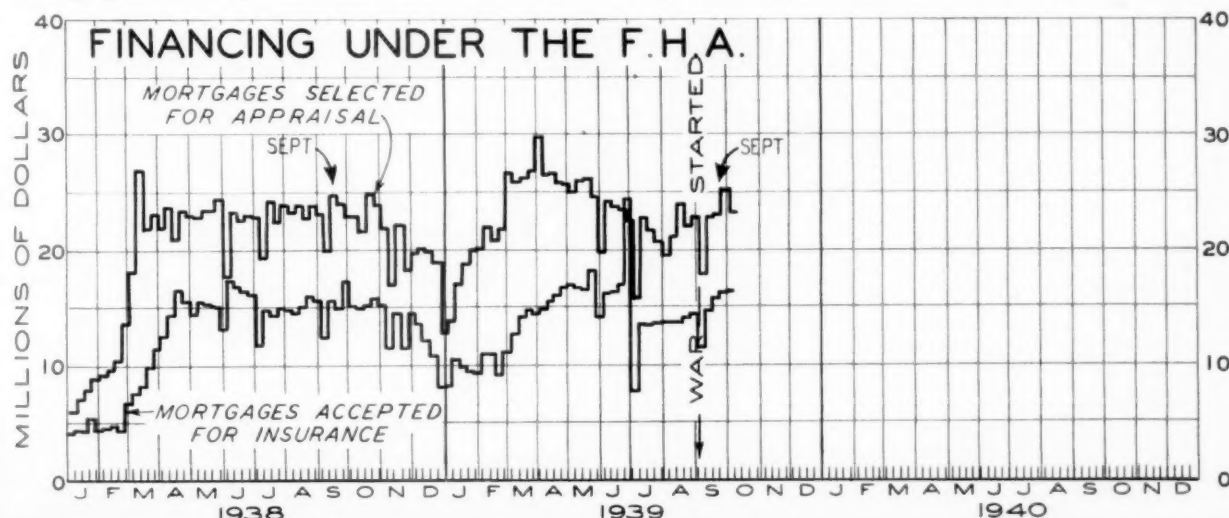
The figure for August which is the last figure available is 7% below August of a year ago, 63.7% below the peak of 1935 and 66.1% below the all-time peak in 1933.

### F. H. A. FINANCING

IN view of the rapid changes taking place because of the war, we are reverting to the charting of weekly figures wherever possibly in place of monthly figures. The chart at the bottom of the page shows the weekly figures for mortgages selected for appraisal and accepted for insurance by the F.H.A. The drop in the first week of September was not due to the shock of the war but to the occurrence of Labor Day during that week. The same thing happened in the corresponding week of a year ago.

Since June, 1939, F.H.A. figures have been running under a year ago. The table below shows a comparison with a year ago since May:

		June	July	Aug.	Sept.	Oct.
	1st wk.					
Mortgages selected for appraisal		+4%	-11%	-8%	-7%	+2%
Mortgages accepted for insurance		+11%	-13%	-6%	-9%	-5%



## BUSINESS IS IMPROVING RAPIDLY (continued from page 229)

of many more than 700 general commodities. October is a close estimate.

**BUILDING MATERIAL PRICES** - Computed by the Bureau of Labor Statistics and included as part of their wholesale price index. The index is charted on a basis of 1926 equals 100. October is estimated from the weekly figures.

**BUILDING VOLUME** - Computed from figures on building permits filed in about 2000 cities having a population of over 1000. These data have been adjusted to cover all cities and are charted as dollar volume per month.

**REAL ESTATE SALES** - Computed by The Real Estate Analyst from figures on 38 principal cities. The index has been corrected for seasonal fluctuations and is charted as percentage deviations from normal.

**REAL ESTATE FORECLOSURES** - Compiled by the Federal Home Loan Bank Board from figures in metropolitan communities. We have adjusted this index for seasonal variation and have charted it on a base of 1926=100.

**REAL ESTATE MORTGAGE FINANCING** - Computed by The Real Estate Analyst from new mortgage figures in 30 principal metropolitan counties. The index is seasonally corrected and is charted as percentage deviations from normal.

### THE REAL ESTATE ANALYST INDEX OF RESIDENTIAL RENTS

THE table below shows the residential rent figures charted by months on the page opposite. This is the revised index of residential rents which appeared in the Real Estate Analyst for the first time in the February, 1938, issue. All rents are expressed in dollars per month per room. This makes possible a comparison

of rent levels between different cities, and in the same city between heated and unheated units. The twenty-six cities selected are typical cities scattered from coast to coast. The method of computing this index is described on page 889 in the February, 1938, Real Estate Analyst.

#### 1939

	March		April		May		June		July		August		September		October	
	Res.	Apt.	Res.	Apt.	Res.	Apt.	Res.	Apt.	Res.	Apt.	Res.	Apt.	Res.	Apt.	Res.	Apt.
National Index	\$8.45	\$11.89	\$8.47	\$11.92	\$8.50	\$11.89	\$8.50	\$11.90	\$8.50	\$11.90	\$8.54	\$11.92	\$8.56	\$11.94	\$8.57	\$11.90
Atlanta	7.61	10.67	7.65	10.68	7.69	10.69	7.70	10.69	7.73	10.70	7.80	10.76	7.91	10.78	7.92	10.76
Baltimore	6.99	10.63	6.99	10.60	7.02	10.57	7.09	10.52	7.08	10.52	7.26	10.61	7.39	10.59	7.30	10.50
Birmingham	6.24	9.70	6.25	9.73	6.24	9.76	6.25	9.83	6.25	9.88	6.23	9.86	6.25	9.89	6.26	9.86
Boston	8.04	14.91	8.20	14.80	8.34	14.78	8.32	14.91	8.15	14.82	8.23	15.10	8.25	15.27	8.25	15.30
Chicago	10.59	12.82	10.62	12.75	10.61	12.70	10.53	12.68	10.50	12.70	10.70	12.71	10.64	12.63	10.60	12.61
Cincinnati	10.01	12.84	10.07	12.85	10.11	12.90	10.09	12.90	10.14	12.89	10.12	12.85	10.10	12.73	9.98	12.69
Cleveland	9.65	12.73	9.65	12.75	9.71	12.77	9.78	12.71	9.77	12.70	9.85	12.68	9.95	12.60	9.94	12.67
Columbus	7.39	11.15	7.26	11.03	7.25	11.09	7.15	11.09	7.18	11.10	7.16	11.07	7.14	11.03	7.14	11.10
Denver	7.92	13.17	7.95	13.05	7.98	13.10	8.01	13.10	8.02	13.10	8.05	13.12	8.07	13.13	8.02	13.10
Detroit	9.17	11.92	9.26	11.90	9.26	11.85	9.27	11.78	9.20	11.70	9.17	11.63	9.10	11.60	9.00	11.58
Houston	8.90	11.12	9.02	11.20	9.01	11.21	9.09	11.14	8.90	11.10	8.80	11.03	8.80	11.00	8.73	11.02
Kansas City	5.95	6.99	6.03	7.08	6.09	7.09	6.15	7.06	6.21	7.03	6.29	7.04	6.25	7.10	6.21	7.05
Los Angeles	10.79	13.37	10.75	13.24	10.63	13.03	10.64	13.01	10.62	12.82	10.65	12.70	10.71	12.60	10.70	12.52
Milwaukee	9.27	10.75	9.31	10.75	9.36	10.69	9.41	10.63	9.55	10.68	9.52	10.70	9.42	10.64	9.27	10.60
Minneapolis	8.27	10.26	8.34	10.22	8.37	10.20	8.36	10.02	8.40	10.10	8.48	10.10	8.53	10.17	8.43	10.23
New Orleans	7.80	10.18	7.88	10.29	7.81	10.23	7.70	10.25	7.75	10.25	8.14	10.30	8.30	10.31	8.50	10.37
New York	13.15	19.49	13.01	19.47	12.92	19.41	12.90	19.46	12.88	19.67	12.89	19.80	13.01	19.80	12.94	19.80
Omaha	6.33	10.98	6.38	10.98	6.47	10.20	6.53	11.37	6.56	11.50	6.58	11.50	6.51	11.54	6.49	11.48
Philadelphia	7.11	14.21	7.14	14.14	7.10	14.03	7.10	13.95	7.05	13.90	7.03	13.93	7.08	14.00	7.05	13.98
Pittsburgh	9.58	12.77	9.53	12.73	9.53	12.59	9.45	12.50	9.35	12.40	9.29	12.30	9.25	12.28	9.20	12.24
Richmond	8.37	10.85	8.35	10.90	8.39	10.95	8.47	11.08	8.44	11.04	8.37	11.09	8.30	11.09	8.23	11.02
Saint Louis	7.78	10.65	7.86	10.66	7.95	10.59	7.96	10.60	8.09	10.61	8.14	10.59	8.10	10.64	8.13	10.70
Salt Lake City	7.39	10.97	7.41	11.00	7.53	10.98	7.60	10.94	7.75	11.03	7.78	11.01	7.85	10.98	7.80	10.98
San Francisco	9.86	13.41	9.95	13.45	9.82	13.42	9.82	13.59	9.82	13.66	9.80	13.69	9.85	13.60	9.86	13.55
Seattle	7.28	11.51	7.13	11.52	7.48	11.50	7.57	11.62	7.50	11.72	7.55	11.89	7.55	11.92	7.59	12.02
Tulsa	8.17		8.12		8.10		8.02		8.14		8.14		8.16		8.05	

# RESIDENTIAL RENTS IN TYPICAL CITIES

